

**TENNESSEE EDUCATION LOTTERY CORPORATION**  
**Funding Board**  
**March 19, 2010**

**ESTIMATION OF**  
**TOTAL AND NET LOTTERY PROCEEDS**  
**FOR FISCAL YEARS ENDING**  
**JUNE 30, 2010, 2011, 2012, 2013 and 2014**

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2010  
SUMMARY**

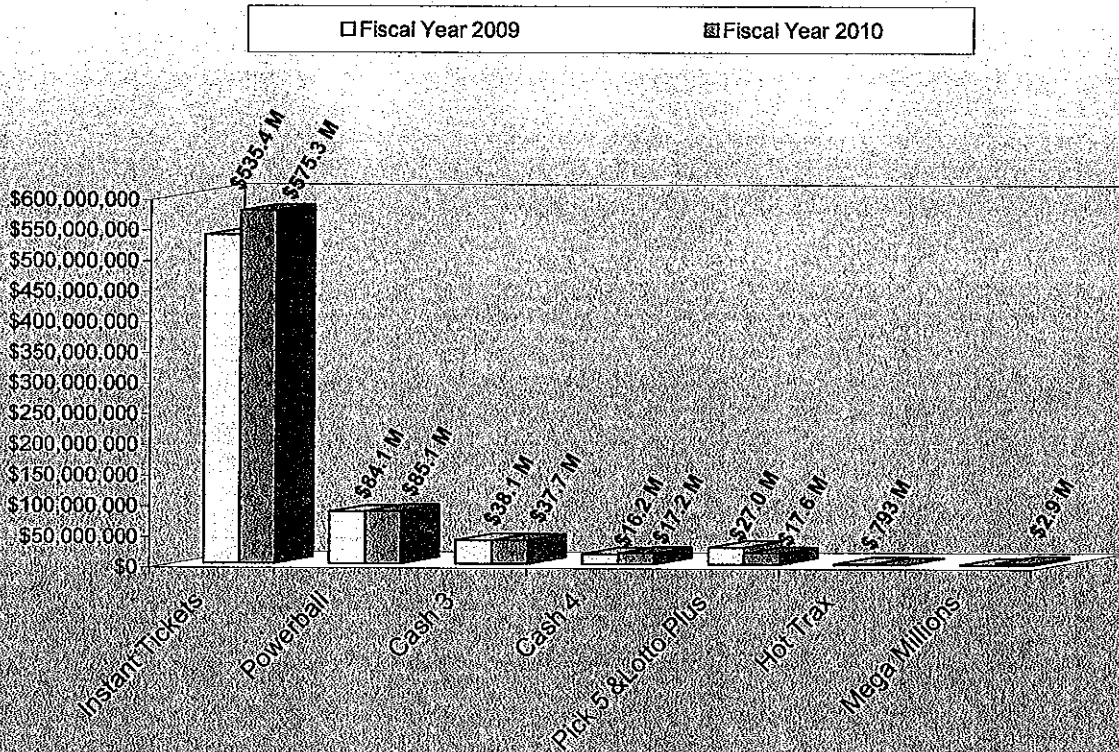
	Actuals as of 2/28/10	Fiscal Years 2010 Low Range	Fiscal Years 2010 High Range
<b>Lottery Proceeds</b>			
Gross Ticket Sales	\$ 735,851,000	\$ 1,091,235,000	\$ 1,127,456,000
Less: Tickets Provided as Prizes	(49,311,000)	(71,893,000)	(73,014,000)
Net Ticket Sales	\$ 686,539,000	\$ 1,019,342,000	\$ 1,054,442,000
Other Revenues	2,681,000	4,546,000	4,546,000
<b>Total Proceeds</b>	<b>\$ 689,220,000</b>	<b>\$ 1,023,888,000</b>	<b>\$ 1,058,988,000</b>
<b>Expenses:</b>			
<b>Direct Expenses:</b>			
Prize Winnings	\$ 431,072,000	\$ 639,033,000	\$ 660,719,000
Retailer commissions	48,053,000	71,244,000	73,598,000
Vendor Fees	14,645,000	21,515,000	22,257,000
<b>Direct Expenses</b>	<b>\$ 493,770,000</b>	<b>\$ 731,792,000</b>	<b>\$ 756,574,000</b>
<b>Non Direct Expenses</b>	<b>18,346,000</b>	<b>29,994,000</b>	<b>29,994,000</b>
<b>Total Expenses</b>	<b>\$ 512,116,000</b>	<b>\$ 761,786,000</b>	<b>\$ 786,568,000</b>
<b>Lottery for Education Proceeds</b>	<b>\$ 177,104,000</b>	<b>\$ 262,102,000</b>	<b>\$ 272,420,000</b>
<b>After-School Programs Funding</b>	<b>\$ 5,486,000</b>	<b>\$ 12,750,000</b>	<b>\$ 13,500,000</b>
<b>Total Education Funding</b>	<b>\$ 182,590,000</b>	<b>\$ 274,852,000</b>	<b>\$ 285,920,000</b>

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2010**

	<u>As of 2/28/10</u> <u>(in millions)</u>		<u>As of 2/28/09</u> <u>(in millions)</u>	
INSTANT GAMES	\$ 575.3	78.2 %	\$ 535.4	76.4 %
CASH 3	37.7	5.1 %	38.2	5.4 %
CASH 4	17.2	2.3 %	16.2	2.3 %
PICK 5	8.1	1.1 %	9.2	1.3 %
LOTTO PLUS	9.5	1.3 %	17.8	2.5 %
POWERBALL	85.1	11.6 %	84.1	12.0 %
MEGA MILLIONS	2.9	.4%	-	-
HOT TRAX	-	-	.8	.1 %
<b>TOTAL</b>	<b>\$ 735.8</b>		<b>\$ 701.7</b>	
<b>Weekly Average Sales</b>	<b>\$ 21.2</b>		<b>\$ 20.2</b>	

**Sales by Product Comparison  
For eight months ended February 28, 2009 and 2010**



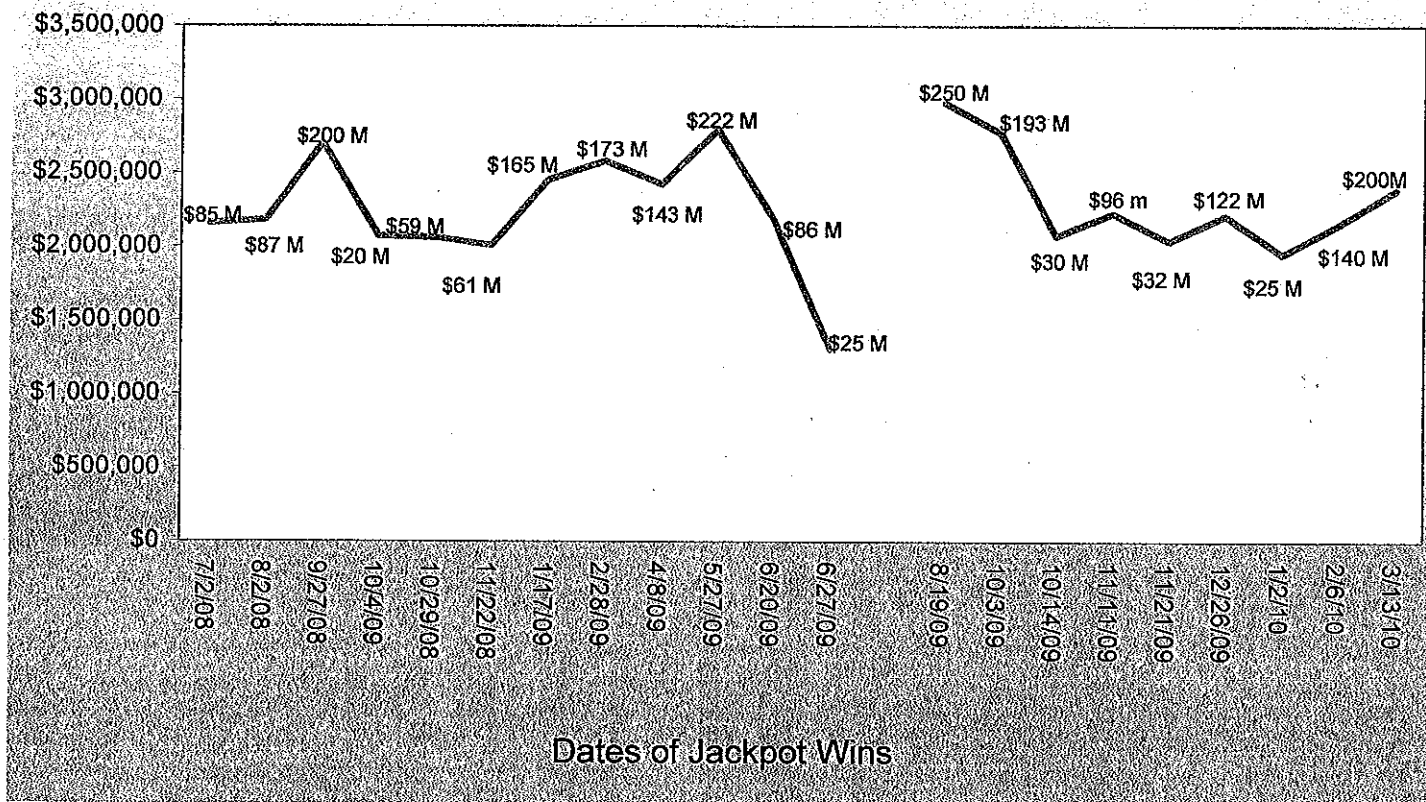
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**POWERBALL**

- Sales year to date at 2/28/10 were \$85.1 million compared to \$84.1 million for the prior period.
- Game sales are directly impacted by the size of jackpots.
- Current game design implemented January 2009 should average three (3) jackpots in \$150-300 million range and one (1) in \$300+ million range within a fiscal year. Current projections include one Powerball jackpot of \$300 million for Fiscal Year 2010.
- As of 3/13/10, we have experienced three (3) jackpot cycles in the \$150-300 million range, which has contributed to the higher sales for the current fiscal year period compared to the prior period.
- Current game design expects an average jackpot cycle to \$140-150 million.

**Tennessee Education Lottery  
Analysis of Average Weekly Revenues for Jackpot Cycle  
July 1, 2008 thru February 28, 2010**



**TENNESSEE EDUCATION LOTTERY CORPORATION  
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**FISCAL YEAR ENDING JUNE 30, 2010**

**MEGA MILLIONS & LOTTO PLUS**

- MEGA MILLIONS launched on January 31, 2010. MEGA MILLIONS is a multi jurisdictional game drawn on Tuesday and Friday each week. With the launch of MEGA MILLIONS, players now have the opportunity to play larger jackpot games four times each week.
- Combined POWERBALL and MEGA MILLIONS sales are up an average of 12% at 2/28/10 over combined POWERBALL and LOTTO PLUS sales compared to prior weeks with similar-sized POWERBALL jackpots.
- LOTTO PLUS ended on January 29, 2010 due to declining profitability of the game, and conflicting draw schedules with MEGA MILLIONS.
- FY2010 estimated online sales include incremental sales of \$10 to \$12 million resulting from the launch of MEGA MILLIONS, ending of LOTTO PLUS and the anticipated impact to other online games.

**PICK 5**

- Sales for this game are impacted by jackpot size.
- Sales are down 12% due to the size of the jackpots experienced for Fiscal Year 2010. In Fiscal Year 2009, TEL experienced four jackpots over \$300,000 for this game while in Fiscal Year 2010 we had only one jackpot over \$300,000 to date.
- Pick 5 jackpots won have averaged \$170,000 for Fiscal Year 2010 compared to \$226,000 in Fiscal Year 2009.

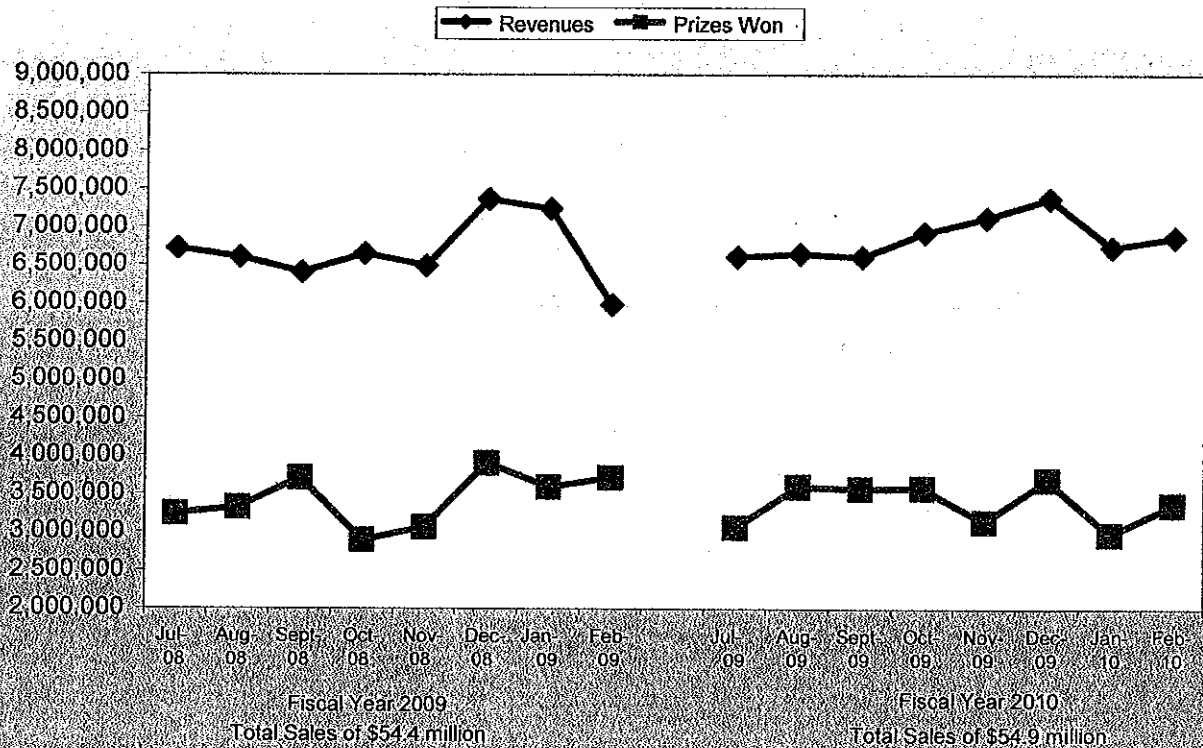
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**FISCAL YEAR ENDING JUNE 30, 2010**

**CASH 3 and CASH 4**

- As of 2/28/10, CASH 3 and CASH 4 sales are slightly higher than the prior period.
- The sales increase is attributable to slightly higher prize payouts, along with implementation of an additional play feature, Lucky Sum, introduced December 2008.

**Tennessee Education Lottery  
Comparing Cash 3 and Cash 4 Revenues to Prizes Won  
July - Feb Fiscal Year 2009 & Fiscal Year 2010**



**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEAR ENDING JUNE 30, 2010**

**Lottery for Education Proceeds**

- \$177.1 million as of 2/28/10
- \$172.7 million as of 2/28/09

**After-School Program Proceeds**

- \$5.5 million as of 2/28/10
- \$7.0 million as of 2/28/09
- Represents actual/realized unclaimed monies
- Significantly impacted by timing of instant game closings, and large online game prizes not claimed
- TEL expects to return approximately \$13 million of unclaimed funds for Fiscal Year 2010.

**Direct Gaming-Related Expenses**

- Aggregate Prize Expense for Instant Games estimated at **66.5%**.
- Aggregate Prize Expense for Online Games estimated at **50.1%**.
- Retailer sales commissions are **6.5%** of gross sales.
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately **2.3%** on instant tickets and **1.2%** for online games.

**Non-Direct Expenses**

- Advertising is estimated at \$ **10.6** million, or **1.0%** of estimated gross sales
- Other Gaming is estimated at \$ **3.0** million, or **0.3%** of estimated gross sales
- General and Administrative is estimated at \$ **15.8** million, or **1.4%** of estimated gross sales

**TENNESSEE EDUCATION LOTTERY CORPORATION  
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS**

**FISCAL YEARS ENDING JUNE 30, 2011, 2012, 2013 and 2014**

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
Gross Revenues	\$1,116 - \$1,153 Million	\$1,144 - \$1,182 Million	\$1,172 - \$1,211 Million	\$1,201 - \$1,241 Million
Total Lottery Proceeds	\$1,120 - \$1,157 Million	\$1,148 - \$1,186 Million	\$1,176 - \$1,215 Million	\$1,205 - \$1,245 Million
Lottery for Education Proceeds	\$268 - \$276 Million	\$271 - \$279 Million	\$274 - \$282 Million	\$276 - \$284 Million
After-School Programs Funding	\$13 - \$14 Million	\$13 - \$14 Million	\$14 - \$15 Million	\$14 - \$15 Million
Total Education Funding	\$281 - \$290 Million	\$284 - \$293 Million	\$288 - \$297 Million	\$290 - \$299 Million

TEL's average projected growth in Fiscal Year 2010 is approximately 3% in gross sales and approximately 2% in net lottery proceeds, resulting primarily from instant ticket growth and multi jurisdictional jackpot games.

TEL's four-year sales growth is expected to average 3% through FY2010. The four-year proceeds growth is expected to average 1% through FY2010.

Sales growth for the lottery industry over the prior three (3) fiscal years was 1.2%, and over the prior five (5) fiscal years was 3.8%. Beneficiary funding for the lottery industry experienced no growth over the last three (3) fiscal years, and approximately 2% growth over the last five (5) years.

Based on TEL's and the industry year-over-year growth in the most recent fiscal years, we recommend only modest annual sales and net proceeds growth in Fiscal Years 2011, 2012, 2013 and 2014 of **3% and 1%**, respectively.

#### **After School Proceeds**

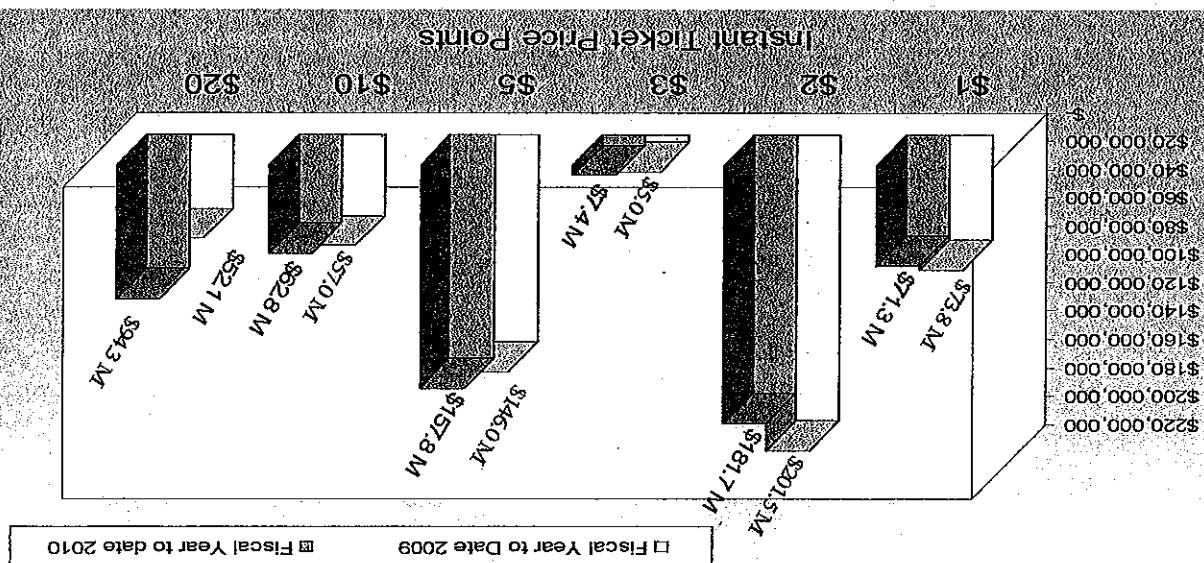
After School Proceeds are based upon historical prize claim experience for Tennessee. The average expected unclaimed prizes represent approximately 2 % of projected available prizes.



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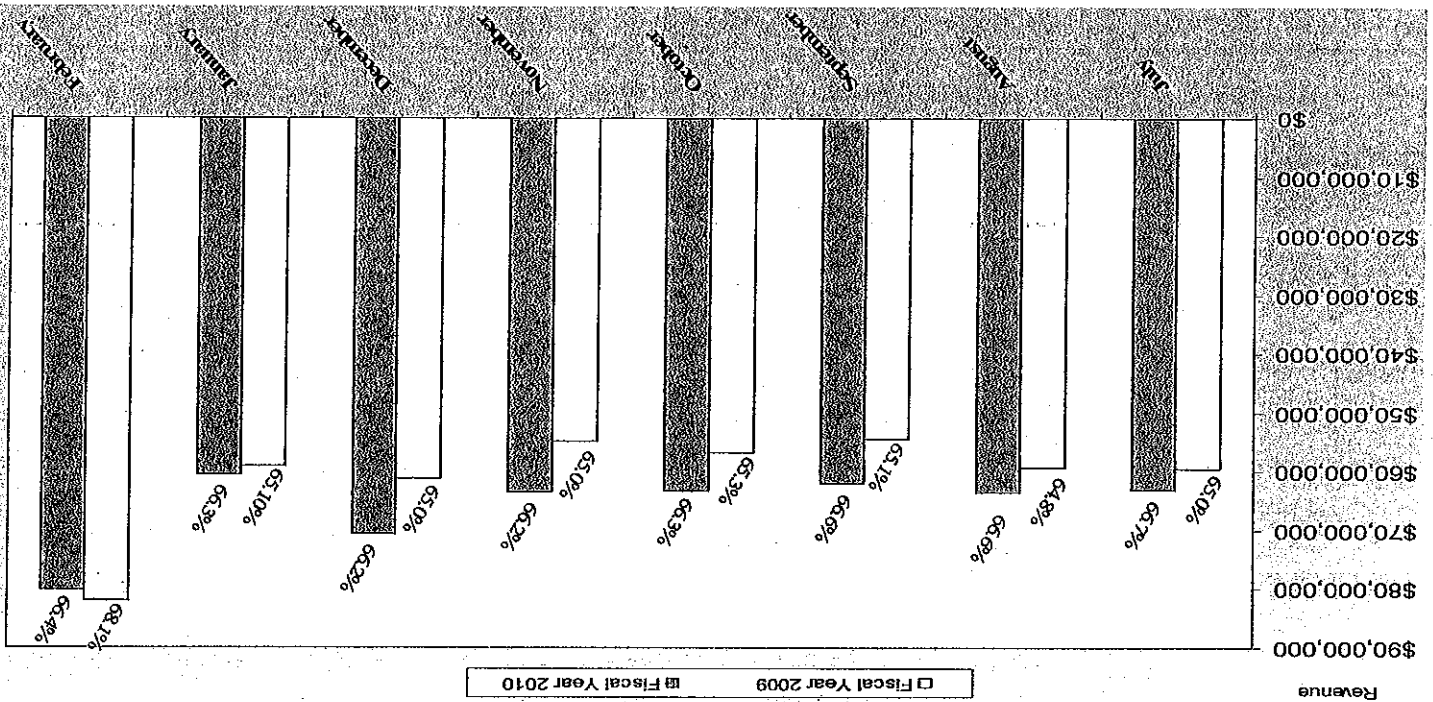
**Instant Games**

**Gross Instant Ticket Sales Comparison by Price Point**  
**For eight months ended February 28, 2009 and 2010**



- Instant Ticket Games account for over 78 % of Total Sales.
- Sales year to date have averaged \$16.6 million a week, representing a 7.8 % increase over the same period in Fiscal Year 2009.
- Growth of the instant ticket products continued to be driven by higher price point games.
- TEL's launch of the Millionaire Jumbo Bucks, \$20 price point game, in February 2010 aided in sustaining the instant ticket growth we experienced the first seven months of the year. TEL expects the fiscal year average growth to be approximately 4% to 5%.
- Instant Games' prize payout is expected to average 66.5 %, compared to 66 % in the prior fiscal year.

**Instant Ticket Prize Payout compared to Instant Ticket Sales**





STATE OF TENNESSEE  
**TENNESSEE STUDENT ASSISTANCE CORPORATION**  
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[www.TN.gov/collegepays](http://www.TN.gov/collegepays)

March 16, 2010

**MEMORANDUM**

TO: State Funding Board

FROM: David L. Wright, Tennessee Higher Education Commission  
Tim Phelps, Tennessee Student Assistance Corporation

SUBJECT: Tennessee Education Lottery Scholarship Program Projections

Pursuant to T.C.A 4-51-111(c)(2)(A)(ii), the Tennessee Higher Education Commission (THEC) and Tennessee Student Assistance Corporation (TSAC) have collaborated to project expenditures in lottery and scholarship grant programs for the 2009-10 fiscal year and the next four fiscal years.

The figures below incorporate data for all lottery-funded programs, including the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Nontraditional Student Grant, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, Rural Health Loan Forgiveness Program, Math & Science Teacher Loan Forgiveness Program, and the Tennessee Student Assistance Award. These figures remain unchanged from those provided to the Board in December 2009.

Fiscal Year	Total TELS Expenditures
2008-09 actual	\$266.6M
2009-10 estimated	\$287.5M
2010-11 projected	\$312.5M
2011-12 projected	\$337.4M
2012-13 projected	\$361.4M
2013-14 projected	\$387.9M

Program expenditure projections are primarily based on increases to the HOPE Scholarship which accounts for approximately 90 percent of overall program costs. Changes in HOPE Scholarship expenditures are largely driven by three factors, two of which increase projected outlays. Recent economic conditions generated significant enrollment increases throughout higher education that are projected to be sustained through 2013-14. Additionally, implementation of the Tennessee Diploma Project is expected to increase the overall academic preparation of high school graduates over the next several years. Finally, projected expenditures for the TELS program are affected by a continuation of the relatively rapid growth in both the Wilder-Naifeh and Dual Enrollment programs.

Please let us know if you have questions or need anything further.